

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

February 17, 2009

The Investment Committee met on Tuesday, February 17, 2009 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:50 a.m. and the following members were present:

George Diehr, Chair
Priya Mathur, Vice Chair
John Chiang
Patricia Clarey
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer, represented by Steve Coony and Rosalind Brewer
Louis F. Moret
Tony Oliveira
Kurato Shimada
Charles Valdes

Terry McGuire represented John Chiang

Investment Committee members excused: Marjorie Berte

Some items were taken out of order.

#### AGENDA ITEM 2 – APPROVAL OF DECEMBER 2008 MEETING MINUTES

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** that the December 15, 2008 Open Session minutes be approved as presented.

Ms. Clarey abstained.

#### AGENDA ITEM 3 - POLICY SUBCOMMITTEE REPORT

Subcommittee Chair Jones presented the December 15, 2008 meeting summary.

On **MOTION** by the Subcommittee, the Investment Committee approved adoption of the Policy on Divestment and revisions to the following policies:

- Global Fixed Income Program
- Internally Managed Global Equity Index Funds
- Global Principles of Accountable Corporate Governance
- Supplemental Income Plans

On **MOTION** by the Subcommittee, the Investment Committee approved revisions to the following Ethics and Shareowner Activities policies:

#### **Ethics**

- Insider Trading
- Consultant Conflict of Interest

#### **Shareowner Activities**

- Corporate Governance Director Nominations
- Representation on Corporate Boards of Directors
- Economically Targeted Investment Program

At the December meeting, the Subcommittee approved the second reading of the Real Estate policy. Subsequently, staff determined that a third reading of the Real Estate policy was needed, which has been scheduled for the April Policy Subcommittee meeting.

#### INTRODUCTION OF CHIEF INVESTMENT OFFICER

The Chair introduced Joseph Dear, incoming Chief Investment Officer. Mr. Dear will join the CalPERS staff on March 2, 2009.

#### AGENDA ITEM 4a – TOTAL FUND, Asset Allocation Update

Farouki Majeed, Senior Investment Officer, provided an update on the actual asset allocation relative to policy targets. The report included actual and policy weights and ranges for each asset class as of December 31, 2008.

An Asset Allocation preview will be provided at the March Committee meeting and a mini Asset Allocation Workshop is scheduled for May.

#### AGENDA ITEM 4b – TOTAL FUND, CalPERS Business Objective 9.1

Matt Flynn, Division Chief, presented the item.

Strategic Goal 9 seeks to achieve long-term, sustainable, risk-adjusted returns and Business Objective 9.1 was developed to identify and implement new investment strategies and opportunities to enhance long-term, sustainable returns.

Staff presented a report on the new strategies including a description of the value added and cost effectiveness. Each of the strategies made a demonstrated contribution in at least one of the following areas: investment performance, staff development, cost savings, and diversification.

# AGENDA ITEM 4c – TOTAL FUND, Update on the General Pension Consultant Services Spring-Fed Pool Request for Proposal

Kami Niebank, Division Chief, presented the item.

In September 2008, the Investment Committee approved the initiation of a competitive solicitation for the creation of a General Pension Consultant Spring-Fed Pool. A Request for Proposals was issued in November with a filing deadline in January 2009. An evaluation committee is currently reviewing the 17 proposals received and recommendations will be presented at the March Committee meeting.

#### **AGENDA ITEM 5 – REAL ESTATE**

There are no items to report.

# AGENDA ITEM 6a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Update on Private Equity Consultant Request for Proposal

Kami Niebank, Division Chief, presented the item.

In September 2008, the Investment Committee approved the initiation of a stand-alone contract for a Private Equity Consultant. A Request for Proposals was issued in December with a filing deadline in February 2009. An evaluation committee will be formed to review the proposals received and recommendations will be presented at the April Committee meeting.

### AGENDA ITEM 6b – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, California Initiative Annual Review

Leon Shahinian, Senior Investment Officer; Joncarlo Mark, Senior Portfolio Manager; and Jesus Arguelles, Investment Officer, presented the item. Beth Sirull, Pacific Community Ventures (PCV), the third-party consultant, participated in the presentation.

The primary objective of this program is to earn attractive risk-adjusted rates of return by investing in underserved markets primarily located in California. As an ancillary benefit, the Program's investments are expected to have a positive impact on the economies in which the capital is invested. Staff and PCV provided a presentation highlighting annual financial results as of September 30, 2008, and annual ancillary benefits of the Program as of June 30, 2008.

There was discussion regarding the percentage of California investments in the Program and the location of the resources of the companies headquartered in California.

The Committee accepted the annual information report.

# AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the ILAC, including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation. Staff is also exploring means to engage with the Federal stimulus package team on infrastructure projects.

Staff will provide quarterly ILAC implementation updates in the future.

### AGENDA ITEM 8a – GLOBAL FIXED INCOME, Credit Enhancement Program Annual Review

Curtis Ishii, Senior Investment Officer; Arnie Phillips, Senior Portfolio Manager; and Dan Kiefer, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff reported that, given the setbacks created by the 2008 financial crisis, many credit enhancement participants have either scaled back or exited the credit enhancement market. As a result, staff has seen a significant reduction in the supply of credit / liquidity facilities coupled with improvement in credit enhancement pricing. Staff highlighted the following:

- Decrease in available credit and number of financial institutions providing credit
- Improved pricing and terms for credit providers
- Deteriorating credit quality of the municipal borrowers

Over the next twelve months, staff will continue to focus its efforts on enhancing essential municipal credits with high underlying credit ratings.

The Committee accepted the annual information report.

# AGENDA ITEM 9a – GLOBAL EQUITY, Risk Managed Absolute Return Strategies (RMARS) Panel Discussion

Eric Baggesen, Senior Investment Officer, and Kurt Silberstein, Senior Portfolio Manager, presented the item

At the request of the Committee, staff organized a panel to engage in a dialogue regarding the Risk Managed Absolute Return Strategies (RMARS) Program and the hedge fund marketplace. The panel members were Jane Buchan, co–founder of Pacific Alternative Asset Management Company (PAAMCO), and Dan Och, CEO and founder of Och-Ziff Capital Management.

The panelists provided remarks on the following topics and responded to questions from the Committee:

- Hedge funds and regulation
- How the change in the investment banking industry will effect the hedge funds use of leverage
- Hedge funds being rated by the rating agencies
- The role of hedge funds in a pension fund portfolio
- Transparency into hedge funds

#### **AGENDA ITEM 14 – PUBLIC COMMENT**

The following individuals commented on the state of the economy and urged CalPERS to support passage of the Federal Employee Free Choice Act:

- Cathy Hackett, SEIU 1000
- Scott Adams, AFSCME
- Caitlin Vega, California Labor Federation

The meeting recessed from 12:30 to 1:20 p.m.

### AGENDA ITEM 9b – GLOBAL EQUITY, Legislative Reports: Holocaust Era and Northern Ireland Annual Reports

Eric Baggesen, Senior Investment Officer, and Bill McGrew, Portfolio Manager, presented the item.

Staff presented the Holocaust Era and Northern Ireland Annual Reports. Upon Committee approval, staff will send the reports to the Legislature and forward letters to companies identified in the reports as having unresolved claims or otherwise requiring corrective action.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the Holocaust Era and Northern Ireland Reports for transmittal to the Legislature.

Staff will consult with the Governmental Affairs staff to explore steps available to discontinue the reporting requirements.

### AGENDA ITEM 9c – GLOBAL EQUITY, Selection of International Developed / Emerging Markets Equity Managers for Spring-Fed Pools

This item was deferred to the March Committee meeting.

#### AGENDA ITEM 9d – GLOBAL EQUITY, Active Internal Equity – Capital Allocation

Eric Baggesen, Senior Investment Officer, and Dan Bienvenue, Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Staff presented recommendations for changes to the emerging markets developmental portfolios and the developed markets (US and International) fundamental factor portfolios.

#### On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve:

- 1. The graduation of the emerging markets developmental portfolios out of the developmental program with a maximum allocation of 3% of Global Equity assets, subject to approval of appropriate policy language; and
- 2. The creation of consistency in the delegation of authority of capital allocation for each of the two developed markets (US and International) fundamental factor portfolios to a maximum of 10% of the assets of Global Equity.

# AGENDA ITEM 9e – GLOBAL EQUITY, Consultant Review of Internal Enhanced Index Program

Andrew Junkin, Wilshire Associates, presented the item. As part of Wilshire's contractual requirement to periodically review all of the internal asset management functions, Wilshire conducted an on-site review of the Global Equity internal enhanced index team's personnel, investment process, and resources. The report findings were presented.

Eric Baggesen, Senior Investment Officer, and Dan Bienvenue, Portfolio Manager, outlined plans in place to address concerns raised relating to key person risk, the QuantTrade relationship, and the trading process for this portfolio.

The Committee accepted the annual information report.

# AGENDA ITEM 10a – GLOBAL EQUITY – CORPORATE GOVERNANCE, International Accounting Standards

This item was deferred to the March Committee meeting.

# AGENDA ITEM 10b – GLOBAL EQUITY – CORPORATE GOVERNANCE, Corporate Board Diversity

Eric Baggesen, Senior Investment Officer; Bill McGrew, Portfolio Manager; and Aeisha Mastagni, Investment officer, presented the item.

In early 2008, California State Controller John Chiang requested that CalPERS consider a new initiative to address corporate board diversity. Subsequently, the Committee directed staff to take certain actions relevant to corporate board diversity, including the development of a white paper on best practices for corporate boards to follow in seeking diversity on their boards and how diversity is linked to performance.

Staff presented the white paper, completed by Virtcom Consulting, entitled <u>Board</u> Diversification Strategy: Realizing Competitive Advantage and Shareowner Value.

The Chair directed staff to proactively promote and distribute the white paper as recommended in the agenda item, and report back to the Committee.

## AGENDA ITEM 10c – GLOBAL EQUITY – CORPORATE GOVERNANCE, Market Reform Principles

Eric Baggesen, Senior Investment Officer, presented the item.

At the January 2009 CalPERS Board offsite, staff presented a draft version of the "Principles of Financial Regulation Reform." The creation of the Principles was undertaken by a group of public pension funds and plan sponsors to ensure that their perspectives are considered during the upcoming regulatory reforms likely to be triggered by recent market turmoil.

Staff presented an updated version of the Principles for the Committee's consideration. Staff plans to engage in activities to carry the market reform message to relevant policy makers.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt the "Principles of Financial Regulation Reform."

### AGENDA ITEM 11 – SUPPLEMENTAL INCOME PLANS (SIP)

There were no items to report.

### AGENDA ITEM 12 – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT

### a. Consolidated Investment Activity Report

Ted Eliopoulos, Interim Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of December 31, 2008, was approximately \$183.3 billion and the total book value was approximately \$197.3 billion.

### b. Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report. It was noted that quarterly strategic investment discussions with the Board's consultants will be scheduled in closed session beginning in April.

#### c. 2009 Annual Agenda Item Calendar

The Committee accepted the Annual Agenda Item Calendar as presented.

#### AGENDA ITEM 13 – DRAFT MARCH 2009 AGENDA

The Committee accepted the proposed March 16, 2009 agenda with the addition of the following items:

- Selection of International Developed / Emerging Markets Equity Managers for Spring-Fed Pools
- International Accounting Standards

#### **AGENDA ITEM 14 – PUBLIC COMMENT**

There were no additional comments from the public.

The meeting was adjourned at 1:50 p.m.

The next Investment Committee meeting is scheduled for March 16, 2009 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer